DYNAMIC ACTIVE ETF PORTFOLIOS

First Year Insights

November 21, 2024

The Dynamic Active ETF Portfolios had a strong first year, driven by robust returns in both equities and fixed income. Fueled by A.I. optimism, the portfolios with a higher tilt towards global equity had stronger performance, as equity markets, particularly in the U.S., experienced one of their best years historically.

Strong equity performance driven by solid earnings and AI enthusiasm

The Dynamic Active ETF Balanced and Dynamic ETF Growth portfolios posted robust performance in their inaugural year, with their allocation towards U.S. Equity enhancing returns. Among the underlying components of these portfolios, the standout performer was the Dynamic Active U.S. Equity ETF, which delivered a remarkable 41.6% return. This performance was driven by the success of growth-focused stocks in the U.S. equity markets, coupled with allocations in the information technology and financial sectors.

Furthermore, the Dynamic Active Canadian Dividend ETF also had a strong year, achieving a 21.8% return driven by its allocation to the financial sector and select names within the energy sector, as dividend strategies had strong performance in the Canadian equity market. Additionally, the Dynamic Active Global Equity Income ETF was a notable contributor across portfolios as its allocation to U.S. and Japanese equities enhanced returns.

Rate cutting helped support fixed income returns

Fixed income had challenges in the earlier part of 2024 as markets reacted to stickier inflation and central bank expectations on lagging rate cuts. However, as interest rate cuts began in early summary, this story changed and returns for the 1-year period were strong. This benefitted the Dynamic Active Income ETF Portfolio and the Dynamic Active Conservative ETF Portfolio, which have higher allocations in this asset class.

Within the Fixed Income underlying building blocks, the top performer was the Dynamic Active Crossover Bond ETF, with an 11.3% return over the 1-year period, driven by active management strategies and exposure to high yield and investment grade credit, particularly in the U.S. The Dynamic Active U.S. Investment Grade Bond ETF and the Dynamic Active Discount Bond ETF also posted double-digit returns, with 10.3% and 10.2% returns respectively.

The monetary policy backdrop of the Bank of Canada starting its easing cycle, and the dropping yield curve, also helped the Dynamic Canadian Bond ETF. This fund posted an 8.7% return, boosted by returns across different sectors and assets in the Canadian fixed income market.

Themes Influencing Portfolios Ahead

1. Disinflation likely to continue but uncertainty remains

Inflation is expected to decline without trade shocks, but uncertainty remains. Two years ago, inflation peaked at 8.5% in developed countries and has since halved. However, services inflation remains high, keeping global inflation above 3%. Over the past four years, inflation in developed countries has been more volatile than in the previous three decades, affecting corporate pricing power and price transmission. Currently, only a quarter of central banks globally are meeting their 2% inflation targets, down from 40% before the Covid era.

Looking ahead to 2025 and beyond, global factors must be considered, as external shocks like geopolitical disruptions have synchronized price movements. While goods inflation has stabilized in some areas, services inflation and labor market tightness remain central concerns. In major economies like the US, UK, Canada, and Germany, the labor market has returned to pre-pandemic tightness, with low but rising unemployment rates.

Markets are currently priced in an environment where inflation is under control. This combined with central banks cutting interest rates could stimulate the economy and the disinflation trend could reverse, causing turmoil for markets. The active approach we used in managing the portfolios will support navigating the changing economic landscape and capitalize on opportunities while mitigating risks.

2. Increased protectionism and geopolitical stakes

Since 2018, increased protectionism in North America, Europe, and East Asia has heightened geopolitical stakes, with a significant rise in trade interventions post-2019. The United States and China, representing 40% of global GDP, have been in a tariff war for over six years, influencing global economic dynamics. Europe has shifted from neutrality to implementing tariffs on Chinese electric vehicles and industrial policies like the European Chips Act. Equity markets have largely ignored these geopolitical developments. However, companies are increasingly making decisions based on political considerations, such as friend-shoring in response to geopolitical conflicts or the anticipated 'Trump tariffs' following Donald Trump's election win.

These geopolitical dynamics could impact markets, as the fragmentation of global trade and the shift towards national policies favoring domestic producers may lead to increased market volatility and sector-specific risks. However, our active management approach will be crucial in navigating these challenges, as it allows for strategic adjustments based on market conditions.

3. Chinese stimulus: growth at risk if stimulus unsuccessful?

China's GDP growth is modest at 4.8% in 2024, with forecasts at 4.5% for 2025. Demographic shifts and structural challenges, such as a global manufacturing slowdown and an aging population, are negatively impacting the economy. While efforts to stabilize the property market have had some success, nationwide stability will take longer. Deflationary pressures and declining investment returns are additional concerns as China aims to avoid the 'Japanification' of its economy by shifting from its investment-led growth model. China saw a significant rally at the end of the third quarter on the announcement of fiscal stimulus, but the question is around sustainability and whether the planned stimulus is enough to offset the economic challenges.

While potential risks may arise in 2025, we are confident in our portfolios' resilience, thanks to their design and diverse exposure to complementary asset classes, regions, sectors, and management styles. We continually refine our portfolios and seek opportunities to enhance their composition for future success and the macroeconomic environment in mind. Our underlying portfolio managers are actively monitoring and managing investments, focusing on companies with strong balance sheets that are well-positioned to seize growth opportunities ahead. As a final note, we want to thank you for your support during our first year; we look forward to many more to come!

Multi-Asset Management Team

1-Year Performance

Performance as of November 14, 2024

	Dynamic Active ETF Portfolios	3-MONTH (%)	6-MONTH (%)	1 YEAR (%)	3 YEAR (%)	5 YEAR (%)	10 YEAR (%)	SINCE INCEPTION - MONTH END (%)	INCEPTION DATE
	Dynamic Active INCOME ETF Series A	1.1%	4.7%	9.6%	-	-	-	9.0%	11/14/2023
	Dynamic Active CONSERVATIVE ETF Series A	2.0%	5.0%	10.8%	-	-	-	9.8%	11/14/2023
	Dynamic Active BALANCED ETF Series A	3.3%	5.8%	13.8%	-	-	-	12.1%	11/14/2023
	Dynamic Active GROWTH ETF Series A	4.7%	6.5%	16.6%	-	-	-	14.3%	11/14/2023
	Underlying building blocks	**3-MONTH (%)**	**6-MONTH (%)**	**1 YEAR (%)**	**3 YEAR (%)**	**5 YEAR (%)**	**10 YEAR (%)**	**SINCE INCEPTION - MONTH END (%)**	**INCEPTION DATE**
Fixed Income	Dynamic Active Canadian Bond ETF (DXBC)	0.0%	5.3%	8.7%	-	-	-	11.7%	10/24/2023
Fixed Income	Dynamic Active Crossover Bond ETF (DXO)	1.3%	5.0%	11.3%	1.5%	3.9%	-	4.4%	1/20/2017
Fixed Income	Dynamic Active Discount Bond ETF (DXDB)	1.0%	5.6%	10.2%	-	-	-	7.6%	11/7/2022
Fixed Income	Dynamic Active Tactical Bond ETF (DXB)	-1.5%	3.3%	4.7%	-0.7%	0.0%	-	1.4%	9/22/2017
Fixed Income	Dynamic Active U.S. Invmt Grd Bd ETF (DXBU)	-0.8%	3.6%	10.3%	-	-	-	13.9%	10/24/2023
Equity	Dynamic Active Canadian Dividend ETF (DXC)	9.3%	9.9%	21.8%	8.4%	11.9%	-	10.7%	1/20/2017
Equity	Dynamic Active U.S. Equity ETF (DXUS)	11.2%	19.0%	41.6%	-	-	-	42.5%	10/24/2023
Equity	Dynamic Active International Dvdnd ETF (DXW)	-2.7%	-5.0%	4.3%	-1.8%	-	-	4.7%	2/14/2020
Equity	Dynamic Active Emerging Markets ETF (DXEM)	7.3%	-4.3%	2.2%	-10.3%	-	-	-11.7%	6/15/2021
Equity	Dynamic Active Global Equity Income ETF (DXGE)	5.6%	7.4%	20.3%	-	-	-	22.0%	10/24/2023